

REMARKS

Applicant's remarks, below, are preceded by quotations of related comments of the examiner in small, boldface type.

Claims 1-15 are rejected under 35 U.S.C. 101 because the claimed invention is directed to non-statutory subject matter.

The simple mention of "the assistance of a machine" is not sufficient in establishing the connection between a technological art and the completion of a basically abstract process of "exchanging, enhancing and redeeming" in an investment entity.

Without conceding the examiner's position, the applicant has made amendments to to claim 1 to emphasize the aspects in which the invention includes using a machine. These include (a) tracking each investor's basis in his interest in the investment entity, (b) allocating each investor's basis in his interest in the investment entity among properties acquired by the investment entity, (c) tracking the allocated basis of each investor as a result of a succession of tax-advantaged exchange transactions, (d) from time to time determining a current value of an interest in the investment entity based on characteristics of the one or more properties held by the investment entity, and (e) identifying at least one of the properties as appropriate for disposition. The activities carried on by the machine are not merely abstract processes; rather they are technological features that enable the benefits of the invention to be realized.

Claims 1-28 are rejected under 35 U.S.C. 103(a) as being unpatentable over the real estate investment entity described in the article "Real Estate Managers Sing Praises of New Financial Hybrid" (Galperin, Ron. June 27, 1995. The Los Angeles Times).

Limited Liability Companies and Limited Liability Partnerships are popular for their tax advantages [See articles McDonough, Shangraw, Blair, Calderon, Hotch, Ward]. In order to obtain shares in such an investment pool, one can contribute cash, real property, a promissory note, services or any type of binding obligation to contribute such articles [See article Ward] (acquiring one or more properties from one or more investors through tax-advantaged transactions, at least one of the properties being acquired from one of the investors in exchange for an interest in an investment entity).

Galperin discloses that LLCs and LLPs are well known in the art as a means of pooling resources for real estate investment. Specifically, Galperin discusses an LLC that invests in distressed commercial and multifamily apartment buildings (investment profile comprises income producing real estate, real estate is comprised of properties where at purchase the price of the property divided by a total rent obtained from such property is low relative to other properties located in a surrounding area, residential properties for which rents are below market for a neighborhood proximate to such properties, properties

inherently comprising inner-city residential properties) and fixes them up (enhancing value of at least one of the properties by physical improvements or refurbishment) or puts them in better financial shape (increases value by improved management of the property).

Galperin's system inherently includes real estate portfolio management. Proper portfolio optimization and risk minimization is essential to the management of any investment portfolio. The average investor relies on managers/administrators for their expertise and ability in deciding how and when to purchase or sell assets. The manager uses any number of factors in deciding how to execute transactions — including setting a performance goal, assessing the value of existing assets, their projected growth, value of potential assets, etc.

Galperin does not explicitly disclose that the real estate investment entity is managed using an automated system that records and analyzes properties held and optimizes the portfolio — by determining which properties fall outside the investment profile and transactions and which are suitable for disposal.

Automated optimization of investment portfolios are commonly used both in all types of asset/liability allocation. Such programs are widely implemented in securities portfolio management (see article Skelton and Patent Champion et al.), mortgage portfolio management (see articles Feshbach and Sinderman), and miscellaneous asset portfolio management (see Patent McClelland). Automated management and reporting systems are also widely used in the real estate business (see Sinderman).

It was known at the time of the invention that merely providing an automatic means to replace a manual activity which accomplishes the same result is not sufficient to distinguish over the prior art, *In re Venner*, 262 F.2d 91, 95, 120 USPQ 193, 194 (CCPA 1958). For example, simply automating the steps of setting a portfolio goal, assessing the value of a investment entity's properties, and managing the entity's assets according to that goal gives you just what you would expect from the manual step as shown in Galperin. In other words there is no enhancement found in the claimed step of automation. The claimed step of optimization using a computer only provides automating a widely practiced manual activity. A computer can simply iterate the steps faster.

It would have been obvious to a person of ordinary skill in the art at the time of the invention to automate the optimization of the portfolio using a computer because this would speed up the process of evaluating current and potential assets and conducting necessary transactions.

Galperin does not explicitly disclose the deployment of a plan of redemption of interests of investors where the redemptions occur at a value based upon the characteristics of one or more of the properties.

The structure of distributions granted to investors by an LLC or LLP are dictated by the entity's operating agreements. Such distributions can be limited or granted in any manner as the administrator/manager sees fit. In that the distribution structure is merely one of design choice, the particular manner of distribution does not result in an improvement to the system or have an unpredictable result.

As mentioned earlier, claim 1 has been amended to recite the use of a machine to (a) track each investor's basis in his interest in the investment entity, (b) allocate each investor's

basis in his interest in the investment entity among properties acquired by the investment entity, (c) track the allocated basis of each investor as a result of a succession of tax-advantaged exchange transactions, (d) from time to time determine a current value of an interest in the investment entity based on characteristics of the one or more properties held by the investment entity, and (e) identify at least one of the properties as appropriate for disposition.

While Galperin describes the use of an LLC as an investment vehicle for distressed multifamily apartment buildings, he does so only in the context of a "small group of private investors" who buy the properties and fix them, apparently without making frequent like-kind exchanges of improved properties.

Galperin neither discloses nor suggests that such a small group of investors could or should use a machine to do the things recited in claim 1. Nor is that surprising, because his small group of investors who enter an investment entity all at one time and do not apparently engage in frequent exchanges would not have a need to perform any of the recited actions by machine. Rather the tracking of basis, for example, could be done by hand.

By contrast, the applicant's invention, which uses a machine for the actions recited in claim 1, is able to achieve results that are far different from and would not have been possible to achieve with a manual system. Because the group of investors mentioned in Galperin never recognized and had no need for the unique advantages that could be achieved by the claimed machine-based techniques, those techniques would not have been obvious from what is described in Galperin.

For example, only with the machine activities recited in the applicant's claims can a very large number of small investors successfully pool their capital in an investment entity that makes frequent like-kind exchanges over many years. The investment entity is able to admit a large number of new investors at different times over a long period and to give the investors a way to redeem their interests at different times over that long period, all in a fair and equitable manner that can be cost-effectively administered. The investment entity can invest in a large number of properties and cycle through numerous like-kind exchanges. Both investors buying in and investors getting redeemed can benefit from the same machine valuation that is based on allocations of returns among investors and focuses on values of the investments held, to produce

a per unit value as of a particular date. The machine activities enable all of this to be done in a relatively small capital enterprise (for example, \$25 to \$75 million of investor contributions), while preventing a "run on the bank" from crippling the business or a group of withdrawing investors from depressing the portfolio value by forcing sales to cover massive redemptions.

All of the dependent claims are patentable for at least the same reasons as the claims on which they depend.

Claim 16 is patentable for at least analogous reasons to those given for claim 1.

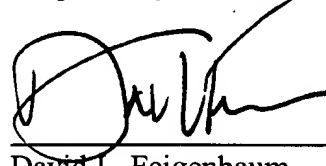
The fact that the applicant has replied to certain comments of the examiner does not mean that the applicant concedes any other comments of the examiner. The fact that the applicant has stated certain arguments for patentability of the claims does not mean that there are not other good reasons for the patentability of those claims or other claims.

Enclosed is a \$104.00 check for excess claim fees and a \$475.00 check for the Petition for Extension of Time fee. Please apply any other charges or credits to deposit account 06-1050, reference number 12016-002001.

Date: _____

6/25/4

Respectfully submitted,



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